Empire State Development Corporation
633 Third Avenue
New York, New York 10017

New York City Economic Development Corporation
110 William Street
New York, New York 10038

The City of New York
City Hall
New York, New York 10007

February 18, 2005

Forest City Ratner Companies
One MetroTech Center North
Brooklyn, New York

Brooklyn Arena/Mixed Use Development Project

Ladies and Gentlemen:

This memorandum of understanding (this “MOU”) sets forth certain understandings and agreements among New York State Urban Development Corporation d/b/a Empire State Development Corporation (“ESDC”); The City of New York (the “City”); New York City Economic Development Corporation (“NYCEDC,” the City and ESDC, collectively, the “Public Parties”) and Forest City Ratner Companies, or one or more affiliated entities (“FCRC”), with respect to the design, development, construction and operation of (a) an arena for use by a professional basketball team currently known as the New Jersey Nets and for other sports and arena events (the “Arena”) and (b) a mixed-use development consisting of multifamily housing; commercial office space; and retail space (the “Development”) on the entirety of Tax Blocks 1118, 1119, 1120, 1121, 1127, 1129 and Tax Block 1128, lots 1, 2, 4, 85, 86, 87, 88 and 89, in the Borough of Brooklyn (the “Development Sites”). Tax Blocks 1118, 1119 and 1127 are referred to herein as the “Arena Site.” The Arena and the Development are referred to hereinafter collectively as the “Project,” the Development Sites and the Arena Site are hereinafter referred to collectively as the “Project Site.”

With respect to the Project Site, Metropolitan Transportation Authority (“MTA”) is the owner of Tax Blocks 1119, lot 7; 1120, lot 1 and 1121, lot 1 (the “MTA Properties”); the City owns Tax Blocks 1118, lot 6 and 1127, lot 33 (the “City Properties”); the following properties are privately owned: Tax Blocks 1118 (excluding lot 6); 1119 (excluding lot 7); 1127 (excluding lot 33); 1129; 1120, lots 19, 28, 35; 1121, lots 42 and 47; and 1128, lots 1, 2, 4, 85, 86, 87, 88 and 89 (collectively, the “Private Properties”); and FCRC represents that certain parcels within the Private Properties are owned or controlled by FCRC or cooperating private parties (“Controlled Properties”). The Project Site includes the following streetbeds: Pacific Street between Flatbush
Avenue and 6th Avenue, 5th Avenue between Atlantic Avenue and Flatbush Avenue, Pacific Street between Carlton Avenue and Vanderbilt Avenue, and a portion of the area below 6th Avenue between Atlantic Avenue and Pacific Street (the “City Streets”). The existing LIRR Vanderbilt Yard (“VD Yard”) is Block 1119, lot 7, Block 1120, lot 1 and Block 1121, lot 1. The new LIRR Yard (“New Yard”) is the entire Block 1121, Block 1120, lot 1, the lead onto the Atlantic Branch Right of Way, and sufficient property, which may be in Block 1119, to build the switching track for the Project.

1. FCRC represents to, and agrees to provide evidence satisfactory to, the Public Parties that it has acquired a controlling interest in the New Jersey Nets professional basketball team (the “Team”). FCRC wishes to relocate the Team to the Arena.

2. FCRC has submitted a draft development and land use plan (“Development Plan”) for the Project to the Public Parties for their review and comment. After the review and comment of the Public Parties, FCRC will prepare and submit to the Public Parties a revised Development Plan, subject to the review and approval of the Public Parties, which plan (a) may include: (i) with respect to the Arena Site, a first class Arena of not less than 18,000 seats, utilizing up to 850,000 gross sf for arena uses, such Arena to be constructed with its main floor, lobby and entrances at the current street grade level, and up to 2,163,978 zoning sf of office development (the “Arena-Ancillary Development Rights”); (ii) with respect to the Development Sites, up to 4,463,606 zoning sf of residential development, and up to 321,975 zoning sf of retail development; and (iii) and parking, vehicular and pedestrian circulation and such other uses, improvements and amenities as FCRC and the Public Parties deem useful and appropriate; (b) provided that, the maximum zoning square footages set forth in clauses (i), (ii) and (iii) above shall be adjusted as necessary in such revised Development Plan, in order to reflect incorporation of the Design Guidelines described in Section 4 below. The Development Plan is attached hereto as Exhibit A-1 through 9.

3. Subject to the review and approval of the Public Parties, FCRC will prepare a financing plan and operating plan for the Project (“Financing and Operating Plan”), that shall include a full Project Budget, including a sources and uses of funds, 30-year pro forma income and cash flow statements. FCRC will also provide a detailed description of the terms of the proposed management agreements to be entered into with respect to the non-residential portions of the Project to the Public Parties, which will be subject to their review.

4. The Public Parties, and FCRC will agree on a set of design guidelines (“Design Guidelines”) for the Project, which shall be incorporated and reflected in the revised Development Plan described in Section 2 above. The Design Guidelines shall include, but not be limited to, building massing and heights, streetwall location and heights, building articulation, distance between buildings, lot and tower coverage, retail continuity and glazing, signage, streetscape improvements, public open space use and design guidelines, sidewalk locations and dimensions, loading and truck access, parking location and vehicle access, vehicular and pedestrian circulation, and ground elevations. The Public Parties, and FCRC acknowledge that the Design Guidelines may affect the
overall project density and the achievable density on individual sites. The ground lease agreements for the Project Site shall require compliance with such Design Guidelines and provide for a review and approval process for Public Parties with respect to changes in such Design Guidelines, provided that any change in the Design Guidelines which would affect overall project density or the achievable density on individual sites shall be subject to such further review and approval as required by law.

5. Subject to the review and acceptance by the Public Parties of the revised Development Plan described in Section 2 above, as well as the Financing and Operating Plan and Design Guidelines and in accordance with statutory requirements, upon provision of a letter agreement from FCRC to the Public Parties to relocate the Team to the Arena Site, ESDC staff intends to seek the approval of the ESDC Board of Directors to have ESDC or a subsidiary of ESDC:

(i) adopt a general project plan (the “GPP”), conduct public hearings, make project findings and take such other actions and proceedings under the New York State Urban Development Corporation Act (the “UDC Act”) as may be necessary or convenient to establish the Project as one or more “projects” under the UDC Act;

(ii) exercise, in consultation with the City, including referral to the City Planning Commission, and NYCEDC and subject to applicable provisions of the UDC Act, its power to override local zoning and other local regulation where appropriate;

(iii) act as a “lead agency” for the Project for purposes of compliance with the State Environmental Quality Review Act (“SEQR”);

(iv) seek appropriate legislation and other State approvals to facilitate financing and implementation of the Project if it is deemed necessary to do so; and

(v) approve acquisition and disposition of the Project Site to FCRC.

6. Upon (a) completion of the SEQR process; (b) approval of the actions set forth in Section 5 above; (c) the execution of all other Project contracts and other agreements deemed appropriate by the Public Parties or FCRC; (d) receipt of evidence that FCRC has obtained financing commitments to construct the Arena, (e) receipt of evidence that FCRC has acquired the Team and (f) receipt of evidence of FCRC’s commitment to relocate the Team to the Arena Site upon completion of the Arena, then the Public Parties will cooperate with FCRC to take such actions as required to implement the Project as set forth in Sections 7 through 12 below; provided, however, that the acquisition and/or disposition of any portion of the Project Site by the Public Parties and the execution and delivery by the Public Parties of funding agreements for the Capital Contribution referred to in Section 8 below shall be subject to the prior execution and delivery of a binding agreement, among the Team, FCRC and the Public Parties to
lease and occupy (for all of its home games) the Arena for a period of not less than 30 years commencing upon the completion of the Arena.

7. Site Acquisition

(i) ESDC, subject to the availability of funding provided by the Public Parties and FCRC as set forth herein, shall carry out such proceedings, make such findings and take such actions under the Eminent Domain Procedures Law as are necessary to acquire by eminent domain portions of the Private Properties and (subject to the consent of the City) the City Streets necessary to facilitate the Project.

(ii) FCRC will provide cash or a letter of credit to the Public Parties to fund any eminent domain acquisition costs. The parties will consider the use of the City’s portion of the Capital Contribution for land acquisition;

(iii) The City will convey the City Properties and the City Streets underlying the Arena (but not including the commercial office building sites adjacent to the arena) to ESDC for $1.00 and the remaining portions of the City Properties and City Streets to ESDC for fair market value (paid for by FCRC) based on an independent appraisal that determines value based on the contemplated Development Plan and the development rights associated with such property, taking into account the amount of any capital contribution or other financial contribution by the Public Parties to the Project (exclusive of the contributions for the Arena Site as specified in Section 10 below) and any extraordinary cost to FCRC of relocating public utilities and installing new public utility infrastructure; and

(iv) FCRC will convey or cause to be conveyed to ESDC the Controlled Properties for $1.00 and will lease back or repurchase the Properties for $1.00.

8. Capital Contributions

(i) The City and the ESDC will commit capital funding to the Project, subject to appropriation, of $100 million each. ESDC’s commitment to provide capital funding is expressly contingent upon a legislative appropriation (or bond authorization) approved by the Governor, State Senate and State Assembly, independent of other financial commitments made, or to be made, by the Governor, State Senate and State Assembly ESDC’s capital contribution shall be used to fund costs of site preparation and public infrastructure improvements on and around the Arena Site
identified in the Development Plan (e.g., streets, sidewalks, utility relocations, environmental remediation, open space improvements, public parking garage improvements) as identified in Exhibit A-1 through 9 attached hereto. The City’s capital contribution shall be used for the same purposes as the ESDC’s capital contribution, except that the City’s capital contribution may also be used to fund a portion of the costs of acquisition of the Arena Site (other than the MTA Properties).

(ii) FCRC shall be responsible for all other costs in connection with the Project, and there shall be no other cash contribution or capital investment by the Public Parties for the acquisition, construction, operation or use of the Development Site or Arena; provided, however, that the Public Parties will consider making additional contributions for extraordinary infrastructure costs relating to the mixed use development on the Project Site (excluding the Arena Building Site).

9. Arena Lease and Subleases; Financing.

(i) ESDC will lease (the “Arena Building Site Lease”) the site on which the Arena building (including the on-site Arena garage) is to be constructed (the “Arena Building Site”) to a not-for-profit local development corporation (“LDC”), organized under Article 14 of the New York Not-for-Profit Corporation Law, and controlled by the Public Parties. The lease will be for a term of 99 years and the rent will be $1.00. Such lease shall terminate upon the repayment in full of all tax exempt bonds issued by the LDC in connection with the construction of improvements at the Arena Building Site, as described in sub-Sections 9 (iv) and (v) below.

(ii) The LDC will sublease (the “LDC-FCRC Lease”) the Arena Building Site to FCRC for term of 99 years, which LDC-FCRC Lease shall be subject to termination by the LDC in the event that the Arena ceases to be used regularly by a professional major league sports team during the first 30 years of beneficial use of the Arena, or thereafter during the term if it ceases to be regularly used as an Arena for sports or other entertainment events. FCRC, the LDC and ESDC shall also enter a PILOT Agreement described below. Upon execution of the LDC-FCRC Lease, FCRC shall enter into a Subordination, Non-Disturbance and Attornment Agreement with ESDC with respect to the LDC-FCRC Lease pursuant to which FCRC agrees that upon termination or expiration of the Arena Building Site Lease, FCRC shall attorn to ESDC as the landlord under the LDC-FCRC Lease and ESDC shall recognize FCRC’s rights and obligations as tenant.
thereunder. Rent under the LDC – FCRC Lease will be $1.00, provided that in the event FCRC wishes to bring another professional sports team to the Arena, FCRC and the Public Parties will negotiate and agree to additional rent and other terms before the Public Parties consent to use and occupancy of the Arena by the second team.

(iii) The Public Parties and FCRC intend that the LDC will issue tax-exempt bonds to finance all or a portion of the cost of constructing the Arena and the on-site Arena garage. The LDC bonds shall be (a) non-recourse to the Public Parties and (b) special obligation bonds of the LDC, payable solely from PILOT, and non-recourse to the LDC and its members, directors, officers and employees.

(iv) The Arena Building Site and the Arena and on-site Arena garage will be exempt from real estate taxes and sales taxes on materials used to construct the improvements thereon. ESDC, LDC and FCRC will enter into a PILOT Agreement with a term of 99 years pursuant to which (i) FCRC will pay a semi-annual PILOT not to exceed the full real estate taxes which the City would assess were the Arena Building Site and the Arena not exempt from such taxes and (ii) LDC shall have the right to pledge such PILOT payments to service the LDC tax-exempt bonds as described below. Any payment Event of Default under such PILOT Agreement shall be a lease termination Event of Default under the LDC-FCRC Lease. The PILOT Agreement will require that payments be made for the term of the LDC-FCRC Lease. The LDC and ESDC will assign PILOT to a trustee on behalf of the LDC in an amount sufficient to pay debt service on its tax-exempt bonds. For any annual period during which the LDC’s tax exempt bonds are outstanding, if PILOT exceeds the total debt service payments for such annual period, such excess shall be applied as follows: (i) 10% of the annual debt service payments for such annual period shall be used to pay the cost of maintenance and repair, including replacements and capital reserves, of the Arena and (ii) the remaining PILOT shall be paid to ESDC. For any period after repayment in full of the LDC’s tax exempt bonds, 100% of the PILOT shall be payable to ESDC.

(v) In the event the LDC issues taxable bonds to pay a portion of the cost of constructing the Arena, FCRC will pay a rent under the LDC – FCRC Lease equal to debt service on such bonds.

10. Developments and Arena Ground Lease. ESDC will lease to FCRC, for $1.00 by 99-year ground lease (the “Development and Arena Ground Lease”) (i) the Development Sites, and (ii) the Arena Site, excluding the Arena Building Site (the “Arena Development Site”). The lease shall require FCRC to pay a PILOT equal to full
real property taxes on the Development Sites and the Arena Development Site and improvements, subject to applicable as-of-right tax exemptions.

11. Other Benefits.

(i) ESDC will consider utilizing its statutory powers to provide exemptions from City and State mortgage recording taxes for construction and permanent financing for the Project and from sales taxes for construction materials for the Project and for fixtures (e.g. scoreboard, stadium seating) for the Arena.

(ii) The Public Parties shall use good faith efforts to obtain the approvals and/or authorizations to obtain, energy cost savings for the Arena for a defined period of time through either the Con Ed Business Incentive Rate Program and Rider J applicable to Service Classification Nos. 4 and 9, as amended, or the New York Power Authority, the New York State Economic Development Power Board and the New York Public Utility Service and the Energy Cost Savings Program, if applicable.

(iii) FCRC will be permitted to apply for tax credits under the Brownfield Program, to the extent the costs of environmental hazard remediation at the Project Site exceed budgeted costs ($20 million).

12. NYCEDC will, on behalf of the City, coordinate the activities of the Department of City Planning, Department of Housing Preservation and Development, Department of Transportation, Department of Environmental Protection, Law Department, Department of City-Wide Administrative Services and such other City departments and agencies as will be necessary or useful in planning and implementing the Project. NYCEDC will cooperate in establishing a protocol with the NYC Department of Buildings for the permitting and inspection of Arena construction work.

13. With respect to any residential rental units to be developed in accordance with the Development Plan, it is the intention of the parties to work together to ensure that a reasonable number of units will be developed as affordable. Preference will be given to community residents, with priority given to those eligible households displaced by development.

14. The Public Parties and FCRC are dedicated to furthering the participation of minority and women-owned businesses and the hiring of minorities, women and local residents with respect to the Project and agree to establish a mutually acceptable program to facilitate that goal.

15. FCRC or its successors will have the responsibility for constructing and maintaining in perpetuity a minimum of 6 acres of green public open spaces, within the
Project Site, all in accordance with the Development Plan. FCRC shall also construct and relocate utilities within the Project Site, all in accordance with the Development Plan.

16. The Public Parties and FCRC agree to cooperate with respect to any public announcement or public disclosure of the terms of the transaction described in this MOU or of any information of any type or nature given by one party to the other (or otherwise obtained) relating to the transaction described in this MOU.

17. The parties recognize that they will require the cooperation of the MTA because of its ownership of the MTA Properties, which are necessary for the Project. FCRC further recognizes that it is of vital importance for the MTA and the Long Island Rail Road ("LIRR") to continue the operations they currently perform in VD Yard in its current location. FCRC agrees that it will cooperate with the MTA and LIRR to ensure that all such functions will continue to be performed at the New Yard, which shall meet the LIRR's needs during construction of the Project, and for 30 years after the completion of such construction.

18. It is understood and agreed that the actions and approvals contemplated herein are subject to all applicable legal requirements, which may include, without limitation, compliance with, among others, the State Environmental Quality Review Act, the New York State Urban Development Corporation Act, the Eminent Domain Procedures Law.

19. Whether the transaction described herein shall be consummated or not, FCRC shall reimburse the Public Parties, within thirty (30) days of demand from time to time, for the following costs and expenses relating to the transaction contemplated by this MOU, including but not limited to: (a) the cost of all environmental analysis performed by the Public Parties with respect to the Project; (b) the cost of consultants acting on behalf of the Public Parties, including but not limited to the cost of a study by a consultant of the cost of operating a train yard beneath a deck; (c) third-party legal fees and expenses incurred by the Public Parties, (d) third-party fees associated with the public approval process, including, without limitation, those arising from public hearings and notices, (e) costs, fees and expenses associated with the condemnation process, and (f) the costs and expenses described in the letter dated February 18, 2004 from James Stuckey of FCRC to Chairman Charles A. Gargano of ESDC. FCRC further agrees to defend and indemnify the Public Parties from and against all liabilities (statutory or otherwise), obligations, claims, demands, penalties, causes of action, third party costs and expenses, losses and injuries in any manner relating to or arising in connection with the Project described herein, including any enforcement of any such indemnity by the Public Parties or MTA.

20. FCRC, and the Public Parties agree that, except as set forth in Section 19, (a) neither the provisions of this MOU, nor any discussions had or to be had between FCRC, and the Public Parties in respect of the Project, shall in any event form the basis for any action against, or claim of liability on the part of, any or all of FCRC or the Public Parties; and (b) this MOU is non-binding and does not create or give rise to any
legally enforceable rights or legally enforceable obligations or liabilities of any kind on the part of any party hereto. The terms of this Section 20 shall survive the expiration or earlier termination of this MOU.

21. This MOU shall be terminable at will by the Public Parties, or FCRC upon 30 days written notice. The obligations of FCRC set forth in Section 19 above shall survive such termination.

Please execute this MOU below to indicate your acknowledgment of, and agreement to, the foregoing.
Very truly yours,

NEW YORK STATE URBAN
DEVELOPMENT CORPORATION d/b/a
EMPIRE STATE DEVELOPMENT
CORPORATION

By: [Signature]
Charles A. Gargano
Chairman and Chief Executive Officer

THE CITY OF NEW YORK

By: 
Daniel L. Doctoroff
Deputy Mayor for Economic Development and Rebuilding

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION

By: 
Andrew M. Alper
President

Forest City Ratner Companies

By: 
Name: 
Title: 
Very truly yours,

NEW YORK STATE URBAN
DEVELOPMENT CORPORATION d/b/a
EMPIRE STATE DEVELOPMENT
CORPORATION

By: ______________________
    Charles A. Gargano
    Chairman and Chief Executive Officer

THE CITY OF NEW YORK

By: ______________________
    Daniel L. Doctoroff
    Deputy Mayor for Economic
    Development and Rebuilding

NEW YORK CITY ECONOMIC
DEVELOPMENT CORPORATION

By: ______________________
    Andrew M. Alper
    President

Forest City Ratner Companies

By: ______________________
    Name: ____________________
    Title: _____________________
Very truly yours,

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT CORPORATION

By: ________________________________
Charles A. Gargano
Chairman and Chief Executive Officer

THE CITY OF NEW YORK

By: ________________________________
Daniel L. Doctoroff
Deputy Mayor for Economic Development and Rebuilding

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION

By: ________________________________
Andrew M. Alper
President

Forest City Ratner Companies

By: ________________________________
Name: Bruce C. Ratner
Title: President and CEO
Exhibit A-2 - Atlantic Yards

- 6 acres of Public Open Space
- 4,463,606 sq ft of Residential
  (affordable, middle, market)
- 321,975 sq ft of Retail
  (in the base of buildings)
- 850,000 gsf Arena
- 2,163,978 sq ft of Office
1. Open space to contain active and passive uses. For example, active uses may include play areas and basketball courts. Passive uses may include grassy areas landscaped with flowers and water elements.

2. Parking entrances and cup curves as per Exhibit A-5.
Brooklyn Arena and Atlantic Yards
Street Map

Exhibit A - 4
Brooklyn Arena and Atlantic Yards Parking* and Curb Cut Map

Notes:
1. Curb cuts will be located a minimum distance of 50 feet from a corner.
2. Curb cuts not to interrupt access space.

Legend:
- Project Site
- Potential Arena/Office Parking
- Potential Residential Parking
- Areas in which curb cuts could be located for Arena/Office Loading

Exhibit A - 5
Brooklyn Arena and Atlantic Yards
General Phasing Plan

Phase 1: Includes the Arena, Office Space (Per Market Demand), Some Residential and the Associated Retail/Office Open Space/Parking

Phase 2: Includes Residential and the Associated Retail/Office Open Space/Parking

Exhibit A - 7
All ground floor retail, pedestrian building entrances and streetfront activation will be located at street grade.

Except where curb cuts are located (areas not actual locations are indicated in Exhibit A-5).

Areas where ground floor retail will be required:

Areas where Pedestrian Building Entrances, Attractive Streetfronts and/or Activation will be required.

Exhibit A-8

Ground Floor Retail and Streetfront Activation

Brooklyn Arena and Atlantic Yards